What You Need to Know About the New Credit Card Reform Law

From U.S. Representative Chet Edwards

Today, credit card debt in the United States has reached a record high of nearly $1 trillion. Almost half of American families currently carry a credit card balance that is, on average, $7,300. One out of every five people carrying credit card debt pays an interest rate above 20 percent. In 2008 alone, credit-card companies imposed penalty fees of $19 billion on families with balances, which accounted for nearly half of their $40.7 billion profits. These often hidden fees have risen by more than 50% since 2003.

Burdened by credit card practices like these and others that the U.S. Federal Reserve has called “unfair, deceptive, and anti-competitive”, many working families feel powerless to keep their financial heads above water. What have been missing are common sense protections that would hold credit card companies accountable for their abuses, which have only deepened the economic crisis in this country.

The good news is that, after years of being blocked by special interests and Wall Street banks, there is a new law on the books that will put an end to credit card practices that have unfairly gouged individuals and families. The Credit Cardholder Bill of Rights, supported by large bipartisan majorities in Congress, and recently signed into law by the President, is one of the most significant consumer protection laws enacted in over a decade, and I am proud to have supported it. While this new law will put in place important protections to prevent credit card companies from unfairly taking advantage of working families, it is vital that consumers exercise personal responsibility, and pay their bills on time to avoid getting over extended with debt.

There are several ways that the Credit Cardholder Bill of Rights will benefit responsible credit cardholders. Importantly, it will block credit card companies from retroactively increasing the interest rates on customers' existing balances unless the borrower is at least 60 days late paying a bill. Also, if a cardholder is 60 days late, but makes payments on time for 6 months, then the original interest rate must be reinstated. Credit card companies must now give 45 days notice on all interest rate increases, so consumers can pay off their balances or shop for a better deal. To protect consumers from due date gimmicks, the new law will require credit card companies to mail bills 21 days before the due date. Gone is the practice of charging interest on already repaid debt, which unfairly penalizes those who responsibly pay their bills. Also significant is the requirement that payments first be applied to the credit card balance with the highest rate of interest, which helps consumers pay off debt faster.

To help keep minors out of excessive debt, those under the age of 21 must have a parent or guardian co-sign their application, or provide proof that they can afford a credit card on their own. Promotional rates offered to woo new customers must last at minimum 6 months, and rate hikes are no longer allowed in the first 12 months after a new account is opened. Finally, it requires that credit card agreements be written in a readable font to put an end to terms hidden in fine print. The 45-day requirement to notify cardholders of interest rate increases and the requirement to bill consumers 21 days in advance will become effective by September. The remaining provisions of the law will take effect in February of 2010.

In this time of economic uncertainty, families can feel confident that important progress is being made with this new law that will make a positive difference in their everyday lives. Going forward, Congress and the Administration should work together to enact other important reforms not included in this legislation such as limiting exorbitant interest rates that can be charged to cardholders, but let there be no doubt that the Credit Cardholder Bill of Rights finally begins to level the playing field for consumers.

Edwards represent District 17 in Congress and serves on the House Financial Services Appropriations Subcommittee.

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